Testimony

of Franklin J. Vargo
Vice President for International Economic Affairs

on behalf of the National Association of Manufacturers

before the **Committee on Energy and Commerce**
Subcommittee on Commerce, Trade and Consumer Protection

The U.S. House of Representatives

Hearing on **"Stimulating the Economy through Trade: Examining the Role of Export Promotion"**

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Mr. Chairman and Members of the Subcommittee,

I am pleased to have the opportunity to testify on behalf of the National Association of Manufacturers (NAM) this morning on "Stimulating the Economy through Trade: Examining the Role of Export Promotion."

The NAM is the nation's largest industrial trade association, representing small and large manufacturers in every industrial sector and in all 50 states. The need for U.S. manufacturers to find markets abroad for their products was the organizing force behind the NAM. That was in 1895 and export promotion still figures prominently in our policy priorities at the NAM.

Prior to joining the NAM, I had a long career with the U.S. Department of Commerce, seeking to do my part to help increase American exports. I applaud this Subcommittee's active interest in determining how exports can be an essential part of the U.S. strategy for economic recovery.

Importance of Exports to U.S. Trade Balance and Jobs

Last year, exports were extremely important to the U.S. economy. In fact, they accounted for the bulk of U.S. economic growth over the past year. U.S. manufactured goods exports were $1.05 trillion, 60 percent of all U.S. exports of goods and services. Services accounted for $550 billion – 30 percent of the total; and agricultural exports were $118 billion – six percent.

Exports are vitally important to U.S. manufacturing. Over one in every five American factory worker owes his or her job to exports. And export-related jobs pay 13-18 percent more, on average, than non-trade-related ones. Exports have been particularly important for the past couple of years, when all growth in manufacturing production was attributable to exports, while domestic demand was flat.

Unfortunately, over the past few months, exports have dropped dramatically as global economies have slid into recession. As the U.S. government looks at promoting long-term, sustainable growth and job creation, any strategy must include programs to expand our exports.

One of the key imbalances we face is our huge trade deficit. There are a number of factors contributing to our deficit, including a prolonged period of dollar overvaluation; open U.S. markets while other significant markets restrict U.S. imports through tariffs and non-tariff barriers; and a range of domestic policies that drive up the cost of U.S.-produced goods.

As we approach how to address our deficit, there are two ways to look at this: an excess of imports over exports, or a deficiency of exports compared to imports. This deficit must be addressed on multiple fronts. On the import side, we have to ensure that imports are fairly traded, and have to deal firmly with subsidies and other unfair trade practices.

On the export side, we need to take steps to get our exports to grow much faster and allow us to pay for our imports through sales to other markets. Our manufactured goods trade deficit has fallen over $85 billion in the past two years as export growth has exceeded import. This welcome development, however, still leaves a too-large deficit; and more improvement is needed.

We can either leave future export performance to chance, a residual result of other policies and actions, or we must have a national export expansion strategy designed to achieve a large and sustained increase in our exports.

Comparative U.S. Export Performance

Because our export growth has been so strong in recent years, many feel the United States is an export powerhouse. But in fact we are not. The United States grossly under exports when compared to other industrialized nations, our major competitors, as is clearly shown in Exhibit 1. The United States actually exports only half as much of its manufacturing production as the average for other major manufacturing nations.

Looking at the 15 major manufacturing nations, accounting for 80 percent of all manufacturing production in the world, the United States ranks last – number 15 out of 15. This is not in terms of the dollar value of exports, but in terms of the proportion of manufacturing output that is exported. With respect to imports, as Exhibit 2 shows, U.S. imports of manufactured goods relative to our production are not out of line with the world average.

We are still the world's largest manufacturers – producing one-fifth of all manufactured goods in the world. However, we account for only 10 percent of world exports of manufactured goods – corroborating the fact that we export proportionately half of what other manufacturers do.

It is important to note that if we exported as much of our manufacturing production as the average of the other nations, our manufactured goods would be double what they are – adding nearly $1 trillion to U.S. exports. Were that to be the case, the United States would not have a trade deficit, and in fact would be in surplus.

In 2008, exports accounted for 13.1 percent of the U.S. economy. This compares unfavorably to countries like Germany, where exports are 49 percent of the economy, the UK (34 percent), France (30 percent), and Japan (19 percent). Even allowing for the significantly larger U.S. domestic market, we need to achieve higher rates of export to pay for our share of imported goods.

Determinants of Exports

The amount of manufactured goods that a country exports depends on a number of factors. The most basic factor is the inherent competitiveness of its industry and the degree of innovation in its products. The United States is a world leader in this regard.

Exchange Rates -- Another key factor is the exchange rate for the country's currency. When the dollar is excessively strong against other global currencies, U.S. goods become expensive in global markets and exports decline. When the dollar is at a reasonable level, exports grow. This sounds like common sense, but it is a fact too often overlooked in this discussion. During the 1997-2002 period, the era of the so-called "strong dollar", the dollar ran up to 25 percent over its equilibrium value. During this period, U.S. exports declined significantly and the trade deficit spiraled upward. The dollar has since returned closer to an equilibrium level, which enabled rapid U.S. export growth until the recent plunge in the global economy.

Tariffs **--** The United States is a very open economy. Our tariffs (taxes on imports) average less than four percent, and over 60 percent of our imports enter the U.S. market duty-free. On the other hand, U.S. manufacturers face high barriers in many of the world's fastest-growing economies. The only way to get those tariffs and other barriers down is through additional trade agreements.

The NAM estimates that about 70 percent of U.S. manufactured goods exports face no tariffs in the global economy. This is the result of bilateral agreements such as NAFTA, CAFTA, and others, as well as multilateral agreements such as the Information Technology Agreement that eliminated most global tariffs on many electronic products, and the Aircraft code that eliminated many country tariffs on large commercial aircraft. Many people are surprised to learn that the United States has a manufactured goods trade surplus with its free trade partners as a whole.

Non-tariff barriers (NTBs) – NTBs are another impediment to U.S. exports, and in fact have risen in importance as tariffs have declined. The NAM seeks to have a renewed emphasis on reducing NTBs such as discriminatory standards and conformity assessment requirements, and we hope that the Subcommittee will be interested in actions that would reduce the incidence of NTBs.

Some NTBs are unintended consequences of well-intentioned regulatory or consumer protection efforts by trading partners. Many more, however, are designed and implemented with the intent of frustrating imports from trading partners, including the United States. And that is certainly their impact.

NAM members face a variety of NTBs. Food safety regulations based on politics and fear rather than hard science and risk management are one major class of NTBs. The European Union is a prime offender in this area. Other common NTBs our member companies confront around the world include labeling and packaging requirements, product standards, import licensing schemes, cumbersome and costly customs and border procedures, "buy national" preferences, ineffective protection of their intellectual property (patents, copyrights and trademarks), as well as anti-competitive restrictions on distribution, marketing, and advertising.

Some NAM members, for example, confront a proliferation of arbitrary sanitary and phytosanitary (SPS) measures in countries around the world that are not based on sound science and that constitute unjustifiable barriers to trade. In many cases, the lack of a scientific basis for SPS measures results in unjustifiable discrimination between similar products.

Manufacturers are also concerned that governments may mandate technical standards that favor local industries. It is vital that governments commit not to mandate standards – particularly technology standards – unless necessary to protect human health, safety, the environment, or related objectives. Standards setting should be consistent with the 2002 decision in the World Trade Organization's Technical Barriers to Trade (TBT) Committee on what constitutes an international standard.

Export Promotion -- Export promotion is the other key factor affecting export growth. It is not enough to have competitive products and access to foreign markets. There are many competitive global producers, and sellers must reach out to buyers and distributors to advertise and promote their products aggressively. It is not a good strategy to sit back and expect buyers to approach you to ask if they can buy your products.

Most large U.S. companies are adept at marketing and maintain global advertising, marketing, and distribution networks. Smaller companies, however, generally have a much more difficult time; and this is where the role of U.S. government export promotion assistance is most important.

Importance of Exports to Small and Mid-Sized Companies

According to Census Bureau data, almost 240,000 small and mid-sized U.S. companies exported in 2006, accounting for 97 percent of the number of U.S. exporters and 29 percent of the value of exports. U.S. small businesses export well over $1 billion a day. U.S. small and mid-sized companies are highly competitive and technologically advanced. They can compete in the global marketplace and a considerable number do very successfully. One NAM member company, Uniweld, a Ft. Lauderdale, Florida manufacturer of refrigeration testing equipment, for example, exports to 80 countries around the world, even though it has only 175 employees.

Too many small companies, however, are under-exporting or do not export at all. Among those U.S. small companies that do export, 58 percent of them export to only one country. Generally they will export to a NAFTA country, which is their largest export market by far. If they export to Europe, they tend to do so to only one or two European countries.

James Morrison, President of the Small Business Exporters Association, a member of the NAM's Council of Manufacturing Associations, reports that "In 2007, small companies exported over $450 billion worth of U.S. goods and services, according to SBA's calculations. If most of the small companies that are making a few sales in one foreign country were to make a few more in that country and/or an equivalent level of sales in a second country, we could probably bring that figure up to $625 billion a year, even without adding any new exporters. We'd be cutting the current trade deficit by about 30 percent. In addition, if we can increase the number of small business exporters by half [it would] eliminate 70 percent of the U.S. trade deficit."

The reason so many smaller companies under-export is that they lack the time and resources to explore and enter new markets. They have their hands full managing their existing business, maintaining their lines of credit, seeking greater efficiencies, complying with federal regulations etc. In addition, a disproportionate number of small companies have been solely focused on domestic markets in the past, so they are most in need of assistance to participate globally. These 97 percent of U.S. exporters are the ones for whom U.S. government export promotion services are so critical to their success.

In addition, the interagency 2008 National Export Strategy report noted that 30 percent of companies that do not export indicated that they would consider exporting if they had more information on markets, specific opportunities, and the exporting process.

The Importance of an Export Promotion Strategy

Especially at this time when companies are seeking to maintain sales and grow jobs during the economic downturn, it is very clear that we must do more to achieve the goal of a sharply increased rate of export growth. We were very pleased that the Obama Administration's trade policy document highlighted the importance of small and medium sized company exports, and wants to create the conditions that will help them become more effective exporters.

Having a reasonably valued currency and access to foreign markets is necessary, but not sufficient. We also need a sharp shift in export orientation that will lead to U.S. firms, like many of their competitor companies in other countries, placing much greater emphasis on finding and selling to foreign markets.

Some may say that seeking new export markets at a time when the global economy has entered into a serious recession and when everyone's exports are falling is a waste of time, and we should wait until good times return. I disagree. It is precisely in tough times that buyers are looking for less expensive suppliers, better commercial terms, and more secure export financing. Our competitors are out in world markets promoting their products, seeking to hold on to present customers and win new ones away from other suppliers. U.S. companies must do the same or they will lose customers and be in a poor position to expand their sales when economies recover.

The first element of an effective strategy is having an ambitious goal. The goal should be large and challenging and its achievement should be a national priority. I have not seen this kind of priority in the United States.

The U.S. export promotion strategy has been one of doing the best we can with the available resources, rather than seeking the resources that would be commensurate with moving us toward a more rapid export growth path. To continue to work toward growing exports by becoming more efficient with current resources and taking advantage of opportunities as they arise is worthwhile and should not be abandoned, but such an approach misses the greater momentum and rewards to be derived from a broad goal and a strategy to reach it.

Export Promotion Resources

Exporting, until recently, has not been a priority for many U.S. companies. Unlike many of our competitors, the United States evolved as a more self-contained economy, with abundant resources and a huge domestic market that occupied our commercial energies. The resources needed to help shift the exporting mentality of the United States and facilitate the entry of American companies into more markets, however, are lacking.

In fact there is serious concern that they have been shrinking. This appears to be the case for the Commerce Department, in real terms. The $339 million listed as export promotion expenditures for the Commerce Department in 2008 would appear to enable fewer actual promotion activities than the $326 million four years earlier, given what I understand are huge increases in contributions for security costs at our embassies.

We understand that the U.S. Commercial Service, the dedicated group of professionals that deliver export promotion services to U.S. companies, is seriously under funded this year. We have heard that there will be no new hiring, including not filling some vacant positions; and most if not all discretionary spending, such as travel expenses to reach markets for U.S. companies, has been put on hold for the rest of the year. Of even greater concern is that, to our knowledge, there has not been a request for additional funding in the 2010 budget.

Additionally, I think an impartial observer would have to conclude that U.S. export promotion priority is on agricultural products, not manufactured goods. The Department of Agriculture budget for export promotion in 2007 was $644 million, while the Department of Commerce budget for promoting exports of U.S. manufactured goods was $339 million. What makes this skewed is that manufactured goods exports are 10 times as large as farm exports, yet the promotion of farm exports receives more than twice the resources as manufactured goods.

I am not in any sense suggesting that agricultural export promotion is over-funded. We need agricultural export growth just as we do manufactured goods export growth. However, if the Commerce Department export promotion budget were to be funded proportional to agricultural export promotion, it would have been 10 times the agricultural budget, or $6.4 billion – an amount 20 times the size of the actual export promotion budget for manufactured goods, a rather startling contrast. We are in a global competition, and advertising, marketing, market information, and assistance in finding customers can make all the difference to American exports. It is not a competition we are winning; in fact, our share of world exports of manufactured goods is falling.

I also need to point out that the U.S. export promotion strategy has for a number of years been one aimed at increasingly shifting the cost of various marketing research and promotion programs to users of trade missions, market research, participation in trade fairs, and the like. This is in contrast to the support other governments provide their exporters as they seek an expanded share of world markets, through both substantial outreach and staffing of government export promotion offices, but also subsidized travel, participation in trade fairs, and other new exporters' market development costs that go directly to companies, especially small and mid-sized.

So while U.S. export promotion programs provide little if any financial assistance to exporters, our competitors have a totally different philosophy about promoting exports. In fact, the National Export Strategy report shows that U.S. export promotion efforts are about half of the average for other major industrial nations.

Export Promotion Programs

It is not my purpose today to evaluate the various export promotion programs the Department of Commerce utilizes. Given the resources available to the International Trade Administration for export promotion, I think they have been doing a good job in seeking to maximize the returns from those resources by reallocating and reinventing. But, as I noted earlier, we are very concerned that the already modest U.S. export promotion activities in the Commerce Department will be impossible to maintain at current budget levels.

Due to budget constraints, the U.S. Commercial Service has recently undertaken a realignment that is apparently resulting in closing a number of its offices and moving positions to other countries. I hope that funding is not so low that the result will be closing some offices but being unable to open others.

While increasing resources to emerging markets like China and India is a good idea to help U.S. companies enter these difficult and complex markets, the volume of U.S. exports to countries in the European Union (EU) is five times that of our exports to China, and the EU market has greater opportunities for smaller companies than China does. Small companies that export to the EU do so to only one or two countries and, given that tariffs and many laws are the same, with a little help, these companies could easily double or triple their exports by expanding to other countries in the EU. There are also important opportunities in the Middle East and other regions that could be missed because there is limited or no U.S. government commercial presence.

We certainly agree that export promotion to China and other advanced developing countries needs to be increased, but this should not be done by cutting back resources in other markets with huge potential.

If a sudden increase in priorities and resources for export promotion were to become available, one program that has been shown to be very effective and could be ramped up very quickly is the Market Development Cooperator Program (MDCP). This program offers grants to vertical trade associations or other groups for programs or promotional offices designed to enhance exports. The grants fund up to one-third of the cost and last for three years. The MDCP program has been a real success, even though it is starved for funds. Commerce Department analysis has shown that for every federal dollar invested, $100 in exports has been generated. Since 1997, this program has generated $2.65 billion in U.S. exports, with an outlay of $20 million or less over that time period.

The current budget for the MDCP is $2 million. When the MDCP was founded in the early 1990's, its budget was $2 million – 15 years later its budget remains the same. With such a record of success, it is our view that this is a program that should be greatly expanded. By contrast, in 2007, the U.S. government spent $240 million for two generally comparable programs that promote agriculture exports. A comparably funded program for manufactured goods' exports would have been $2.4 billion – 1200 times larger than the actual budget of $2 million. I again want to make clear that my comments are not intended to be a criticism of promotion funds for U.S. agricultural goods. My remarks are meant to highlight the paucity of funding to promote manufactured goods exports and to illustrate what a comparably funded Commerce Department program would be, scaled to the size of exports.

Another example of an export promotion program NAM members think could be expanded quickly if there were additional funds is the International Buyers Program. This program promotes foreign buyer attendance at U.S. trade shows, and is an attractive way of promoting small and medium-sized firms' products because these firms don't have to travel overseas to exhibit their products. The prospective buyers come to U.S. shows where U.S. companies are already exhibiting. Only 20 shows per year qualify for the program, but given its success, I believe it should be considered a key part of any expanded export promotion program.

Export Finance

Another key factor in export success is export finance and credit. Agencies such as the Export Import Bank and the Small Business Administration offer valuable services and products to U.S. exporters. Each of them also has programs specifically geared to small companies and their special needs.

These resources should be considered as an integral part of any export promotion strategy and serious consideration should be given to finding creative ways to match the programs offered by foreign governments to competitor companies. Increasingly, this is an issue for U.S. credit agencies that were not designed for the kind of agility and flexibility required in today's global commercial environment.

We are very pleased with reports that at the upcoming G20 meeting, members will consider coordinated actions to ensure the continued flow of export credit and finance as a key factor in their efforts to stimulate global growth. The kind of joint infusion of funding into the system through national export finance banks, like the United States Export-Import Bank, is the kind of initiative needed at this time to maintain the necessary financial structure for the global trading system.

Next Steps

There has been a considerable amount of attention recently to the issue of improving coordination of U.S. export promotion programs, and improved coordination is always positive. I have read the various Inspector General and GAO reports and believe they contain some good recommendations.

But we must also make export promotion a national priority and provide adequate resources. Incremental improvements and greater efficiencies, such as those being sought at the present time, are valuable, but I believe what is needed is a greatly expanded program of export promotion for U.S. manufactured goods, one that is more parallel to what the U.S. government allocates for agricultural export promotion and what other governments allocate to promote their producers' exports.

The question is how do we get from where we are to where we need to be if we are to have such an expanded program? How do we move beyond incremental change and obtain a radical shift in our approach?

Export promotion programs have been demonstrated to be effective, and have such high pay-out ratios that the programs pay for themselves in the future tax revenues they generate. Pay-out ratios of $100 of new exports for every added dollar of export promotion are on the conservative side of the figures we have seen, some of which indicate a 300-to-1 pay-out ratio or even better.

The need for, and effectiveness of, export promotion programs receive little publicity and are not widely known. Hearings such as this one are valuable in exploring the utility of export promotion and can help generate an awareness of its benefit.

Another useful step would be for this subcommittee to request the Government Accountability Office (GAO) or the Congressional Research Service (CRS) to undertake a thorough investigation of the scope of major foreign competitor export promotion programs, focusing on identifying best practices. To be most useful, the report should include detail on funding levels and categories. Such a report would draw a sharp contrast between what other countries are doing to promote their exports and what the United States is doing.

It is our view that the more that Congress and the Administration look at the U.S. promotion program and compare it with the extent of the need and opportunity, the more likely it is that we can obtain the greatly increased priority and resources we believe are necessary for export promotion.

Conclusion

In conclusion, Mr. Chairman, I would like to thank you and the members of the Subcommittee again for this opportunity to testify on such an important issue. The current state of the U.S. and global economies make it imperative that we look at ways that we can make our companies more competitive and contribute to our overall economic growth and prosperity, including through exports.

It will require good ideas and serious funding if we want the United States to become the export powerhouse we envision. The NAM stands ready to work with you and your staff on this very important issue.

Thank you, Mr. Chairman.

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EXHIBIT 1

The United States Under-Exports

Of the 15 major manufacturers (accounting for 80% of world manufacturing) the United States ranks lowest for the proportion of manufacturing production exported.

Proportion of Manufactured Goods Production Exported

Indexed to United States = 1.0

WORLD	**2.2**
Taiwan	5.0
France	3.3
Germany	3.2
Mexico	2.9
Korea, Republic	2.8
Canada	2.7
United Kingdom	2.5
Italy	2.4
Spain	2.1
China	2.0
India	1.3
Japan	1.2
Australia	1.2
Brazil	1.0
United States	**1.0**

If the United States exported at the average of other countries, our manufactured goods exports would double – eliminating the U.S. trade deficit.

EXHIBIT 2

Most Other Countries Import Proportionately More than the United States Relative to the Size of Their Manufacturing Industries

Imports Relative to Manufacturing Production

Indexed to United States = 1.0

WORLD	**1.3**
Taiwan	2.4
France	2.0
Mexico	2.0
United Kingdom	2.0
Canada	1.8
Spain	1.7
Australia	1.7
Germany	1.3
Italy	1.2
Korea, Republic	1.1
United States	**1.0**
India	0.9
China	0.9
Brazil	0.5
Japan	0.4

Imports are certainly a factor in the U.S. trade deficit, but U.S. manufactured goods imports are not out of line with other manufacturing countries.

Source: World Bank, Global Trade Information Service